

**NECA****NATIONAL EXCHANGE  
CARRIER ASSOCIATION**

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SEP 21 1994

**Robert E. Lloyd**  
Vice President  
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**FEDERAL COMMUNICATIONS COMMISSION**  
**OFFICE OF SECRETARY**

DOCKET FILE COPY ORIGINAL

September 21, 1994

Mr. Bill Caton  
Acting Secretary  
Federal Communications Commission  
Room 222  
1919 M Street, N.W.  
Washington, D.C. 20554

Re: Safeguards to Improve  
the Administration of Interstate  
Access Tariff and Revenue  
Distribution Processes

Written Ex Parte Notice  
CC Docket No. 93-6

Dear Mr. Caton:

Attached are documents relating to the compensation plan used by the National  
Exchange Carrier Association.

Please acknowledge receipt hereof by affixing a notation on the duplicate copy of  
this letter furnished herewith for such purposes and remitting same to bearer.

Very truly yours,

  
Robert E. Lloyd

cc: William Kehoe  
John Hays

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## NECA'S 1994 COMPENSATION PLAN

1. NECA's compensation plan, based on similar plans in the telecommunications industry, was designed with assistance of nationally known consultants.
2. Compensation Plan components include:
  - Base salary (fixed)
  - Incentive plans (at risk)
    - Short term
    - Long term
3. Incentive plans are designed to reward performance associated with achievement of corporate objectives. Also to attract and retain people required to manage NECA.
4. Short Term Incentive Plan
  - "At risk" payout varies based on attainment of NECA objectives including:
    - Service to member companies
    - Tariff Filing and Earnings (FCC authorized level)
    - Role as member resource
    - Efficiency
    - Quality
    - Discretionary (as determined by the NECA Board)
  - Plan is heavily weighted toward service and filing of accurate tariffs, with particular emphasis on conducting all activities with uncompromising integrity in full compliance with FCC rules.
  - The earnings component has been de-emphasized from one half of total weighting at the time of the Ernst & Young Audit to no more than one quarter of total weighting in 1994. The net effect of this change is that the percent of total compensation based on earnings for the President and Vice Presidents has been reduced from a maximum of 20.2% in 1990 to 6.2% in 1994.
  - We were sensitive to Ernst & Young comments. Ernst & Young said earnings were an appropriate measure of performance. Companies outside the NECA pool incent their employees to achieve earnings goals.
  - Plan is designed to ensure compliance with FCC rules, and provides no incentive to earn in excess of FCC authorized rate of return.

5. Long Term Incentive Plan ( 1992 - 1994 Performance Cycle)

- "At risk" payout varies based on measurements of the following long term goals:
  - . Maintenance and enhancement of pooling and revenue distribution process.
  - . Value-added services to member companies.
  - . Corporate efficiency
  - . Discretionary (as determined by the NECA Board)
- Prior to 1992, NECA did not have a Long Term Incentive Plan. The plan has no earnings component.

**SUMMARY**  
**NECA ANNUAL INCENTIVE PLAN - 1994**

1. **PARTICIPATION:** NECA staff at all levels.
2. **PAYOUT:** Annually in cash as a lump sum. Payout by April 1, 1995 based on 1994 performance.
3. **PAYOUT RANGE:** 0 to 150% of the "incentive standard" with targeted payout at the 100% performance level.
4. **PERFORMANCE CRITERIA:** Difficult but achievable stretch objectives. Corporate objectives and performance measures will be developed annually. Compliance with FCC rules is implicit in the measurement of performance on all objectives. Performance will be pro-rated on quantified performance measures. An 80% performance threshold applies to all qualitative measures. No incentive compensation is paid on a qualitative measure if performance is below 80%.
5. **PERFORMANCE MIX:** Total corporate performance is based on attainment of established corporate objectives which carries a 75% weight and a discretionary performance component which carries a 25% weight and is determined by the Compensation Committee of the NECA Board of Directors. Total performance is the basis for determining payouts by organization level in accordance with pay policy.
6. **PAY POLICY:** Incentive standards are targeted to the median incentive policy of the telecommunications industry and represent 100% performance levels. Incentive standards for 1994 have been established for each organization level:

ORGANIZATION LEVEL	INCENTIVE STANDARD <sup>1</sup>
President	40%
Vice Presidents	30%
Executive Directors	22%
Directors	12%
Exempt Staff (Grades 8-12)	8%
Non-Exempt Staff (Grades 1-8N)	2.5%

<sup>1</sup> Expressed as a percent of salary grade midpoint.

March 7, 1994

**NECA  
1994 CORPORATE WEIGHTS**

<b><u>OBJECTIVES AND MEASURES</u></b>		<b><u>WEIGHTS</u></b>	
		<b>MEASURE</b>	<b>OBJECTIVE</b>
1.	SERVICE		27.00
	A. Overall Satisfaction	4.25	
	B. Pool Rev. Req. & Cost Study Compliance	6.25	
	C. USF/LA - FCC Approval	4.13	
	D. Satisfaction with USF/LA	3.12	
	E. Average Schedules - FCC Approval	4.13	
	F. Satisfaction with Average Schedules	3.12	
	G. Training	2.00	
2.	TARIFF FILING AND EARNINGS		25.00
3.	INDUSTRY RESOURCE		13.00
	A. Unity and Universal Service	6.00	
	B. Enhanced Relationships	5.00	
	C. Additional Services	2.00	
4.	EFFICIENCIES AND IMPROVEMENTS		5.00
	A. Efficiencies & Improvements	3.00	
	B. Expenditures to Budget	2.00	
5.	QUALITY IMPROVEMENTS		5.00
6.	DISCRETIONARY		25.00
	TOTAL		100.00

# 1994 CORPORATE OBJECTIVES

In full compliance with FCC rules, NECA will conduct all activities with uncompromising integrity.

OBJECTIVE	RESPONSIBILITY	MEASURE	WEIGHTS	
			MEASURE	OBJECTIVE
1. Maintain and enhance the level of service to member companies.	IR Regions-Lead Rates, Costs & Avg. Schedules Tariff, Rev. & Support Prog.	A. Overall member satisfaction with NECA service as measured by survey.  4.50 = 150% 4.00 = 100% 3.50 = 50% 3.00 = 0%	4.25%	27.00%
	IR East/West - Lead IR Regions Tariff, Rev. & Support Prog. Rates, Costs & Avg. Schedules	B. Documented activities that address accuracy of pool member revenue reporting, access billing, revenue requirement reporting and cost study compliance with FCC rules, including: - monthly pool monitoring - focused on-site reviews - resolution of cost issues - cost study validation process - CABS billing support - effective CABS reviews - resolution of billing issues - service auditor's report - local transport restructure	6.25%	
	Tariffs, Rev. & Support Prog.-Lead Rates, Costs & Avg. Schedules IR Regions Government Relations & Regulatory	C. FCC acceptance of USF/LA tariff filings with a standard of no more than minor modifications. Documented activities in support of programs are considered.	4.13%	
	Tariffs, Rev. & Support Prog.-Lead Rates, Costs & Avg. Schedules IR Regions Government Relations & Regulatory	D. Member company satisfaction with NECA support of USF/LA services as measured by survey. - access to experts - Data request instructions and time to respond - program binder - USF System meets needs, response time  4.50 = 150% 4.00 = 100% 3.50 = 50% 3.00 = 0%	3.12%	

1994 CORPORATE OBJECTIVES

In full compliance with FCC rules, NECA will conduct all activities with uncompromising integrity.

OBJECTIVE	RESPONSIBILITY	MEASURE	WEIGHTS	
			MEASURE	OBJECTIVE
1. Maintain and enhance the level of service to member companies. (Cont.)	Rates, Costs & Avg. Schedules-Lead IR Regions Tariffs, Rev. & Support Prog.	E. FCC approval of 1994 Average Schedule formulas with a standard of no more than minor modifications. Documented activities in support of the formulas are considered.	4.13%	
		F. Member company satisfaction with NECA support of average schedule activities as measured by survey. - access to experts - pool administration procedures - NECA responses	3.12%	
		4.50 = 150% 4.00 = 100% 3.50 = 50% 3.00 = 0%		
		G. Member company satisfaction with EC training as measured by survey. - average schedule settlements - cost settlements - access tariff - local transport restructure - incentive regulation	2.00%	
	IR-East Organization-Lead IR Regions Tariff, Rev. & Support Prog.	4.50 = 150% 4.00 = 100% 3.50 = 50% 3.00 = 0%		

# 1994 CORPORATE OBJECTIVES

In full compliance with FCC rules, NECA will conduct all activities with uncompromising integrity.

OBJECTIVE	RESPONSIBILITY	MEASURE	WEIGHTS	
			MEASURE	OBJECTIVE
2. File accurate tariffs that produce the authorized level of earnings in accordance with FCC rules.	Rates, Costs & Avg. Sched.-Lead IR Regions Tariffs, Rev. & Support Prog.	<p>Average CL and TS 1994 rate of return compared to authorized. *</p> <p>ROR    11.25    = 100%</p> <p>         11.00    = 75%</p> <p>         10.75    = 50%</p> <p>         10.50    = 0%</p> <p>The following will positively or negatively impact authorized rate of return results:</p> <ol style="list-style-type: none"> <li>1. Documented activities which demonstrate tariff filings are in compliance with FCC rules.</li> <li>2. A standard of FCC acceptance of the annual tariff filing with no more than minor modifications.</li> <li>3. Accuracy of NECA's projection of average minutes of use with a standard of plus or minus 2½%.</li> <li>4. Accuracy of NECA's projection of revenue requirements with a standard of plus or minus 2½%.</li> </ol>		25.00%

\* January 1995 view of projected earnings will reflect any significant known or expected adjustments per the earnings assessment analysis.

# 1994 CORPORATE OBJECTIVES

In full compliance with FCC rules, NECA will conduct all activities with uncompromising integrity.

OBJECTIVE	RESPONSIBILITY	MEASURE	WEIGHTS	
			MEASURE	OBJECTIVE
3. Enhance NECA's role as a member resource.	Tariffs, Rev. & Support Prog.-Lead Rates, Costs & Avg. Schedules IR Regions Government Relations & Regulatory Planning	A. Documented activities which address NECA facilitation for the maintenance and evolution of Unity and Universal Service.	6.00%	13%
	Government Rel. & Reg.- Co-Lead Administration - Co-Lead Tariff, Rev. & Support Prog. IR East & West Organizations Rates, Costs & Avg. Schedules IR Regions	B. Documented activities that address NECA efforts to enhance relationships - including communications - with key stakeholders.	5.00%	
	Tariff, Rev. & Sup. Prog.-Co-Lead Planning-Co-Lead All Departments	C. Documented activities related to the provision of additional services which meet emerging member needs:  1. FCC approval of TRS filings with no more than minor modifications is the standard.  2. FCC approval of NECA's filing for Expanded Training and International Assistance.  3. Documented activities to identify, evaluate and offer additional services.	2.00%	

# 1994 CORPORATE OBJECTIVES

In full compliance with FCC rules, NECA will conduct all activities with uncompromising integrity.

	OBJECTIVE	RESPONSIBILITY	MEASURE	WEIGHTS	
				MEASURE	OBJECTIVE
4.	Develop a NECA budget which maintains a balance between efficiency and high quality service and conduct all planned activities within budget limits.	Finance-Lead All Departments	<p>A. Documented efficiencies and improvements in NECA operations.</p> <p>B. Actual expenditures compared to budgets.</p>	<p>3.00%</p> <p>2.00%</p> <p><u>See following</u> <u>Performance Guidelines</u> <u>for 1994 Expense &amp; Capital</u> <u>Budget</u></p>	5.00%
5.	Employ quality principles to achieve continuous service improvement for all NECA customers.	Planning-Lead All Departments	<p>Documented activities and results of quality improvement programs.</p> <p>1. Staff's perception of management's support of quality as measured by the 1994 Staff Survey</p> <p>4.50 = 150%</p> <p>3.90 = 100%</p> <p>3.30 = 50%</p> <p>2.80 = 0%</p> <p>2. Documented results of quality improvement programs.</p>		5.00%
6.	Discretionary	All Departments			25.00%

01/31/94

**1994 PERFORMANCE GUIDELINES  
EXPENSE AND CAPITAL BUDGET**

		<u>PERCENT VARIANCE</u>	<u>PERFORMANCE LEVEL</u>
UNDERRUN	=	-5>	150
		-4	140
		-3	125
		-2	115
		-1	
MEET BUDGET	=	0	100
OVERRUN	=	+1	
		+2	75
		+3	50
		+4	25
		+5>	0

# **SUMMARY**

## **NECA LONG TERM INCENTIVE PLAN**

### **1992-1994**

1. **PARTICIPATION:** NECA President and Vice Presidents elected by the Board of Directors.
2. **PERFORMANCE CYCLE:** The performance cycle is a period of three consecutive calendar years. Each cycle is a separate and distinct three year end-to-end performance cycle with no overlap.
3. **PERFORMANCE CRITERIA:** Qualitative and quantitative goals are adopted by the Compensation Committee for a specific three-year performance cycle. The goals are accompanied by specific performance measures and are weighted in terms of total performance.
4. **PERFORMANCE GRANTS:** Annual cash allotments based on a participant's incentive standard and salary grade midpoint. Payment is contingent on performance as measured against established performance goals over a three-year period. The performance grant represents the target payout at 100% performance level.
5. **PERFORMANCE AWARDS:** Performance awards are based on attainment of long-term performance goals with a payout range of 0 - 125% of the performance grants as approved by the Compensation Committee of the Board after conclusion of the performance cycle.
6. **PAYOUT:** Performance awards will be paid in cash on or about April 1 of each of the three years following the end of the three year performance cycle.
7. **PAY POLICY:** Long-term incentive standards are targeted to the long term incentive policies of the telecommunications industry. The following incentive standards have been established for the 1992 - 1994 performance cycle:

#### **ORGANIZATION LEVEL**

#### **INCENTIVE STANDARD<sup>1</sup>**

President	10%
Vice Presidents	5%

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<sup>1</sup> Expressed as a percent of salary grade midpoint.

# **1992-94**

## **Long Term Incentive Plan**

### **Performance Goals and Measures**

**A. *Maintain and Enhance the Pooling and Revenue Distribution Process (40%).***

- Administer the pooling process with the highest level of integrity.
- Influence regulatory change in the best interest of member companies.
- Administer the pooling process in the best interest of member companies in full compliance with regulatory and legal requirements.
- Reduce earnings erosion from historic levels.

**B. *Provide Value Added Services to Member Companies (20%).***

- Provide revenue producing services.
- Provide new member services.

**C. *Increase Corporate Efficiency (20%).***

- Control expense growth considering relevant productivity factors.

**D. *Discretionary (20%).***

- Other significant long term accomplishments.

# **Long Term Incentive Plan Performance Goals and Measures 1992-1994 Performance Cycle**

## **A. *Maintain and Enhance the Pooling and Revenue Distribution Process (40%).***

- *Administer the pooling process with the highest level of integrity.*

Measure is qualitative based on the following:

- How diligent was NECA in identifying settlement-related issues and how effectively did NECA ensure compliance with FCC rules?
- Have regulatory or court proceedings successfully challenged NECA's integrity in operating the pooling process and Lifeline Assistance/ Universal Service Fund (LA/USF) programs?
- What strengths and weaknesses have FCC and internal audits shown about the pooling process and LA/USF programs, and how effectively has NECA addressed areas of concern?

- *Influence regulatory change in the best interest of member companies.*

Measure is qualitative based on whether regulatory changes over the three-year period have been favorable, and how well NECA's management has influenced change. In other words, is the regulatory scene and climate better in three years than it is today and was NECA effective in causing changes to occur.

This measure is important to the member companies. It is focused on ensuring the long term regulatory climate is favorable for our members. It is accomplished through effective contacts with key FCC and NARUC personnel and by taking advocacy positions in meetings and comments that produce regulatory decisions favorable to the constituency. The focus is not on short term issues, such as a specific USF filing, but on more generic issues, such as improvements in the regulation of non-price cap exchange carriers, the USF program and average schedules. It will require considerable stakeholding efforts with members, associations, consultants and IXC's.

- *Administer the pooling process in the best interest of member companies in full compliance with regulatory and legal requirements.*

Measure is qualitative based on the following:

- . What changes did NECA introduce during the period to enhance the pooling process for member companies?
- . What positive steps did NECA take to preserve the value of pooling for member companies?

- *Reduce earnings erosion from historic levels.*

Measure is qualitative based on the trend of erosion over the three-year period and the basis points of erosion for three years compared with historic levels.

Historic levels of erosion have been substantial. The reporting of cost study results to the pool at higher than forecast and preliminary pooling levels makes it difficult to target earnings and creates a perception of game playing. Management should take appropriate steps to bring the forecasts underlying the tariffs, the preliminary pooling data and the final cost studies into line. The attached guideline for evaluating long term earnings erosion will be considered in determining performance on this measure.

*B. Provide Value Added Services to Member Companies (20%).*

- *Provide revenue producing services.*

Measure is qualitative based on the following:

- . Evaluation of the Category I services implemented to produce net revenue for NECA and improve service to member companies and the industry.
- . Evaluation of services implemented by NECA that produce a potential revenue opportunity for member companies.

- *Provide new member services.*

Measure is qualitative based on the following:

- . The number of new member services implemented.
- . The value of new services to member companies (member company survey is one indicator).

NECA's effectiveness at minimizing resources required to develop and implement new services.

*C. Increase Corporate Efficiency (20%).*

- *Control expense growth considering relevant productivity factors.*

Measurement will be based on an analysis of the average annual percentage change in NECA regulated expenses charged to the pools over the three year performance cycle (e.g., 1992-1994) compared to the average increase in the Gross National Product-Price Index (GNP-PI) as used in current "Price Cap" regulation. The analysis will consider explicit expense savings implemented by NECA management.

*D. Discretionary (20%).*

- *Other significant long term accomplishments.*

## Guideline For Evaluating Long Term Earnings Erosion

### *Historic Earnings Erosion*

(Common Line and Traffic Sensitive combined)

Average Basis Points Erosion

1989-91  
202\*

\* Based on 12/91 Earnings Assessment Projection

### *Guideline For 1992-94*

#### Average Basis Points Erosion

#### Performance Level

< 100	125%
120	100%
140	50%
> 160	0%